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Committee on Financial Services

Michael G. Oxley, Chairman

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House Reduces Tax on American Investors, Bill Will Save Millions in Excess Fees

The House approved bipartisan legislation today that will reduce a hidden tax on more than 90 million Americans who invest in the stock market. The Capital Markets and Investor Fee Relief Act passed by a vote of 404 to 22.

"This tax is not about government need, it's about government greed. It's time to stop raking in cash at the expense of American investors," said House Financial Services Chairman Michael G. Oxley. "We need to encourage Americans to save and invest---not penalize them with fees."

Currently, investors pay over \$3 million per trading day in excess transaction fees. The purpose of the fee is to fund the Securities and Exchange Commission (SEC), which monitors the nation's capital markets. As a result of unprecedented trading volume since 1983, fee revenue has exceeded the budget of the SEC by a significant and growing margin - currently the SEC is funded at more than six times its budget. The excess money goes to pay for other Washington programs.

The legislation, introduced by U.S. Rep. Vito Fossella (NY), will save American investors \$14 billion over ten years by reducing five hidden taxes, most notably a tax when securities are sold. This fee hits any American who owns an equity investment, including mutual funds, 401(k) plans, life insurance policies, and public and private retirement plans.

"Today we have fulfilled our promise in the House to eliminate this unnecessary tax on capital and stop the federal government from overcharging investors," Fossella said. "To spur economic growth and expand opportunity, we need to increase access to capital and create added incentives for the American people to save and invest."

Capital Markets Subcommittee Chairman Richard H. Baker said, "This is what conservative, free-market philosophy is all about, letting people keep their money. It's a major victory for the House to pass a measure which does precisely that. I think it sends the proper and forceful message that we're serious about empowering small, individual investors, and removing government's long and sticky fingers from their wallets."

The legislation takes care to ensure that the SEC remains fully funded in order to protect investors from fraud. It also provides for much-needed "pay parity" to help the Commission attract and retain the first-rate attorneys, accountants and economists it needs to properly regulate our nation's rapidly growing and changing markets.

"Today's vote on H.R. 1088 represents an important, bipartisan step forward in the effort to lower transaction fees on individual investors. We are one step closer to our goal of ending these unfair overcharges on capital markets participants and providing SEC employees with pay parity," said U.S. Representative Carolyn B. Maloney (NY).

U.S. Rep. Sue W. Kelly (NY) said, "It is untenable to silently tax investors, entrepreneurs and businesses through fees designed to fund securities regulation. These excessive fees place an undue burden on individuals who invest in mutual funds or have pensions. The pensions of teachers, police officers, and other workers should be protected and encouraged---not taxed."

The number of Americans investing in the stock market as their primary or supplemental means of saving for retirement has dramatically increased. As a result of the larger number of employers offering retirement plans, this increase has not been among the very wealthy - the increase in mutual fund ownership between 1998 and 2000 was strongest among households with incomes of less than \$35,000.

"I am pleased that the House passed this legislation, which is really about helping Main Street, not Wall Street," said U.S. Representative Joseph Crowley (NY). "Average investors no longer wear wing tips and pumps, they wear work boots and tennis shoes. Half of all Americans are investors, and they should not be burdened with excess taxation on their investments. I applaud Chairman Oxley for his leadership on this legislation that is so important to my constituents in New York City."

The legislation would eliminate all excess fees that are currently going to general revenues. It would, however, ensure that enough fees would be generated to fully fund the SEC.

H.R. 1088 was introduced on March 19, 2001 with 35 original cosponsors and passed the House Financial Services Committee by voice vote on March 28.

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